

REPORT ON EXAMINATION
OF THE
FIREMEN'S INSURANCE COMPANY OF WASHINGTON DC
AS OF
DECEMBER 31, 2004

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2004 of the

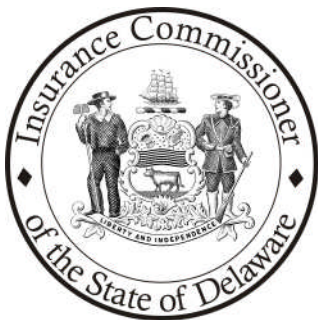
FIREMEN'S INSURANCE COMPANY OF WASHINGTON D.C.

is a true and correct copy of the document filed with this Department.

ATTEST BY:

Annette Handy

DATE: 22 FEBRUARY 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND
AND AFFIXED THE OFFICIAL SEAL OF THIS
DEPARTMENT AT THE CITY OF DOVER, THIS
22ND DAY OF 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
FIREMEN'S INSURANCE COMPANY OF WASHINGTON D.C.
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", is written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 22nd Day of FEBRUARY 2006.

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Honorable Alfred W. Gross, Commissioner
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Honorable Matthew P. Denn, Commissioner
State of Delaware
Department of Insurance
841 Silver Lake Boulevard, Suite 100
Dover, Delaware 19904

November 8, 2005

Dear Commissioners:

In compliance with your instructions and pursuant to statutory provisions contained in Certificate of Authority letter 5.023, an examination has been made of the affairs, financial condition and management of the

Firemen's Insurance Company of Washington D.C.

hereinafter referred to as "Company" or "Firemen's", incorporated under the laws of the State of Delaware. The examination was conducted at the administrative office of its Parent, Berkley Regional Insurance Company (BRIC), located at 11201 Douglas Avenue, Urbandale, IA, 50322.

The Company's registered office in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware 19801.

The examination was conducted concurrently with that of BRIC and affiliates Tri-State Insurance Company of Minnesota, (Tri-State), a Minnesota domestic insurance company, Acadia Insurance Company (Acadia) and Chesapeake Bay Property and Casualty Insurance Company (Chesapeake), both of which are Maine domestic insurance companies, and Continental Western Insurance Company, an Iowa domestic insurance company. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2002. This examination covered the period January 1, 2003, through December 31, 2004, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions and events occurring subsequent to the latter date were reviewed and have been commented upon to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department and generally accepted statutory insurance examination standards.

In addition to noted items in this report, the following topics were reviewed and are included in the workpapers of this examination. No exceptions or errors were noted during our review of these items:

- Fidelity Bond and Other Corporate Insurance
- Agents and Employees Welfare and Pension Plans
- NAIC Ratios
- Legal Actions
- Commitments and Contingent Liabilities
- Risk Based Capital
- Subsequent Events
- All Asset and Liability Items Not Mentioned in This Report

Workpapers prepared by the Company's external accounting firm, KPMG, LLP, New York, New York, in connection with their annual audit, were reviewed and relied upon to the extent possible. INS Services, Inc was retained by the Delaware Department of Insurance to conduct a review of the Company's overall risk related to Information Systems Controls.

HISTORY

The Company was chartered in 1837 by a special Act of Congress of the United States of America as "The President and Directors of the Firemen's Insurance Company of Washington and Georgetown", a District of Columbia property and casualty insurance company. In July, 1957, the Company adopted its present name, Firemen's Insurance Company of Washington, D.C.

In 1982, the Company became a member of the W. R. Berkley Corporation ("WRBC") holding company system. At that time, the Company merged with WRB Acquirer, Inc. and the Company remained the surviving entity. WRB Acquirer, Inc. was a wholly-owned subsidiary of Union Insurance Company, which was in turn a wholly-owned subsidiary of WRBC. The Union Insurance Company then contributed all of the issued and outstanding shares of the Company's capital stock to another of its wholly-owned subsidiaries, Signet Reinsurance Company. In 1993, all of the other Company's issued and outstanding shares of capital stock were transferred to WRBC, and the Company became a directly owned subsidiary of WRBC.

In 1994, the Company re-domesticated from the District of Columbia to the State of Maryland. On October 19, 1994, the Maryland Insurance Commissioner approved the Articles of Re-domestication and Reincorporation of the Company to the State of Maryland. Effective November 30, 1994, the Company's Articles of Dissolution were accepted by the District of Columbia Business Regulation Administration.

According to the Company's Articles of Re-domestication and Reincorporation, the primary purposes for which the Company was formed were to transact property and casualty insurance and reinsurance business, and to engage in any other lawful related business.

In 1995, the Company revised its charter for the purpose of increasing the par value of its common stock from \$25 per share to \$35 per share. The amendment was approved by the Maryland Insurance Administration.

In 1996, WRBC contributed 100% of the Company's issued and outstanding stock to Berkley Regional Insurance Company (BRIC), a wholly-owned subsidiary of WRBC. As a result, the Company became a direct subsidiary of BRIC and WRBC remained the ultimate parent.

On January 31, 2001, the Company re-domesticated from the State of Maryland to the State of Delaware with approval that the home office would be located in Richmond, Virginia.

The Company is authorized to write insurance policies covering virtually all property and casualty lines of business in the states where it holds a license.

CAPITALIZATION

At December 31, 2004, the Company had 100,000 common shares authorized with a par value of \$35 per share, of which all shares were issued and outstanding. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

Capitalization

<u>Date</u>	<u>Description</u>	<u>Common Shares Issued</u>	<u>Par Value</u>	<u>Pref Shares Issued</u>	<u>Par Value</u>	<u>Capital Paid-In</u>	<u>Gross Paid-in Contributed Surplus</u>	<u>Unassigned Funds</u>
12/31/02		100,000	\$35	N/A	N/A	\$3,500,000	\$15,717,835	\$5,189,523
2003	Operations (1)							996,378
12/31/03		100,000	\$35	N/A	N/A	\$3,500,000	\$15,717,835	\$6,185,901
2004	Surplus Cont (2)						4,000,000	
2004	Operations (1)							1,131,848
12/31/04		100,000	\$35	N/A	N/A	\$3,500,000	\$19,717,835	\$7,317,749

- (1) Operations are defined to include any of the following: Net income, Change in net unrealized capital gains or loss, Change in net unrealized foreign exchange capital gain or loss, Change in net deferred income tax, Change in non-admitted assets, Change in provision for reinsurance and Cumulative effect of changes in accounting principles.
- (2) The Company received a surplus contribution from its parent, BRIC, in the form of short-term investments in the amount of \$4 million on November 10, 2004.

DIVIDENDS TO STOCKHOLDERS

According to Company records for the exam period (January 1, 2003 thru December 31, 2004) and as reflected in minutes of the Board of Directors' meeting, no stockholder dividends were declared or paid.

MANAGEMENT AND CONTROL

The Company's By-Laws as amended to date, state that the affairs of the Company shall be managed by its Board of Directors consisting initially of eight (8) directors and thereafter shall consist of such number as may be fixed from time to time by resolution of the Board. As of the examination date the Company had eight (8) directors. Directors are elected at the annual meeting of the stockholder and each Director serves for the term of one (1) year until the election and acceptance of their duly qualified successor. The Company's amended and restated Certificate of Incorporation states the number of directors will be no less than (nine) 9 and no more than 25 and can be fixed from time to time by the By-Laws. This appears to be a conflict between the By-Laws and Certificate of Incorporation.

It is recommended that the Company amend its Certificate of Incorporation and/or By-Laws to correct the inconsistencies regarding the required number of directors.

The Board of Directors shall hold an annual meeting for the purpose of organization and the transaction of any business immediately after the annual meeting of the stockholders, provided a quorum is present. Special meetings of the Board may be called by the Chairman of

the Board or by the President. The presence of a majority of the Directors constitutes a quorum at any meeting of the Board. Directors serving at December 31, 2004 were as follows:

<u>Name and Address</u>	<u>Primary Occupation</u>
Eugene George Ballard Greenwich, CT	Senior Vice President, CFO and Treasurer W.R. Berkley Corporation
William Robert Berkley, Jr. Greenwich, CT	Director & Executive Vice President W.R. Berkley Corporation
Robert Paul Cole Greenwich, CT	Senior Vice President – Regional Operations W.R. Berkley Corporation
Ira Seth Lederman Greenwich, CT	Senior Vice President - General Counsel & Secretary W.R. Berkley Corporation
Stephen Michael Loderick Glen Allen, VA	Vice President & Treasurer Firemen's Insurance Company of Washington, D. C
Kevin Wesley Nattrass Glen Allen, VA	President Firemen's Insurance Company of Washington, D. C.
Alfred Schonberger Hackensack, NJ	President Clermont Specialty Managers, Ltd.
George Copper Wynne Glen Allen, VA	CEO Firemen's Insurance Company of Washington, D. C

The following officers had been selected by the Board of Directors and were serving at December 31, 2004.

<u>Name</u>	<u>Title</u>
Kevin Wesley Nattrass	President
Stephen Michael Loderick	Vice President and Treasurer
Luigina Lina Montagna	Secretary
William Kirk Bonner	Vice President
Jeffery Edward Bouton	Vice President
David Charles Keller	Vice President
Alfred Schonberger	Vice President
William Ralph Sitterson	Vice President
William Edelbutie Yount	Vice President

Committees

There were no committees as of December 31, 2004.

The minutes of the meetings of the Stockholder and the Board of Directors which were held during the period of examination were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

CORPORATE RECORDS

Surplus contributions made during the examination period were reviewed and compared to Board of Directors minutes, surplus accounts and Schedule Y. It was noted that the Company received a \$4,000,000 paid in surplus contribution in November of 2004 from its parent, BRIC.

AFFILIATED AGREEMENTS

Intercompany Tax Allocation Agreement

The Company is included in a consolidated income tax return in accordance with a Tax Allocation Agreement with W.R. Berkley Corporation (WRBC) dated March 22, 1996. The provision for federal income tax is computed as if the Company were filing a separate federal income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the extent they are utilized in the consolidated federal income tax provision. Tax balances are settled quarterly.

Investment Advisory Agreement

The Company and Berkley Dean & Company, Inc. (Berkley Dean), a subsidiary of WRBC, entered into an Investment Advisory Agreement on March 22, 1996, as amended on July 24, 1998. Berkley Dean provides investment advisory services at an annual fee per terms in the

agreement based on the net asset value of the portfolio at the end of each quarter with billing rendered on a quarterly basis at $\frac{1}{4}$ of the annual rate. For the year 2004, the Company paid a total of \$90,195 to Berkley Dean & Company for services rendered.

Computer Services Agreement

The Company and Berkley Technology Services LLC (BTS), an affiliate of WRBC, entered into a Computer Services Agreement effective January 1, 2002. BTS provides the Company with computer and data processing services including programming, operations, network management and consulting as required. The charge for services shall be based on a cost basis. Where services are rendered to several affiliated companies including the Company, cost shall be based on the estimated written premium volume of each company. BTS shall submit a statement within 30 days of the end of each quarter and the Company shall remit payment within 20 days of receipt of the statement.

Administrative Services Agreement

The Company and Berkley Insurance Company of the Carolinas (BICC) entered into an Administrative Services Agreement filed on May 5, 2000, as amended effective January 15, 2002. Firemen's furnishes BICC with staff, offices and equipment to service business written by BICC where it holds a license to do business. BICC reimburses the Company on a cost basis.

Management Agreement

The Company and Clermont Specialty Managers, Ltd (Clermont) entered into a management agreement effective January 1, 1997. Clermont serves as manager for producing, underwriting and servicing certain property; casualty; crime; automobile; directors and officers liability and liquor law legal liability business. Clermont shall not bind the Company on policy limits greater than \$15 million unless advance approval is granted by the Company.

Compensation to Clermont shall be on an actual cost basis. Settlement shall be no later than 30 days after the end of each calendar quarter.

Although the management agreement with Clermont is still active, it was not listed in the 2004 Annual Form B.

It is recommended that all active intercompany agreements be included in Item 5 of the Annual Form B Holding Company Registration Statement.

Management Agreement

The Company and Monitor Surety Managers, Inc. and Monitor Liability Managers, Inc. (Monitor) entered into a management agreement effective August 1, 1995, as amended February 1, 1996. Monitor serves as manager for producing, underwriting and servicing certain surety business. Monitor shall not bind the Company on policy limits greater than \$15 million. Monitor may submit risks above the limits mentioned above for special acceptance by the Company. Compensation to Monitor shall be on an actual cost basis, with settlements to be made no later than 30 days after the end of each calendar quarter.

Underwriting Management Agreement

The Company and Armada Insurance Services, Inc. (Armada) entered into an underwriting management agreement effective July 1, 1988. Armada serves as manager to receive and accept proposals of insurance from licensed brokers throughout the US and registered Lloyd's brokers on certain property and casualty business. Compensation to Armada shall be commissions equal to the commissions paid by Armada to its producers plus a monthly management fee per the agreement. As the premiums written by Armada are 100% ceded by the Company to Admiral Insurance Company (Admiral), Armada allows this compensation to be

paid directly by Admiral to Armada. Armada shall remit a monthly report to the Company of transactions for the month. Armada shall remit to the Company 90 days after the close of a calendar month any balance due as reflected in the monthly report.

Administrative Service Agreement

The Company and Key Risk Management Services, Inc. (Key Risk) entered into an administrative service agreement effective June 1, 1999. Key Risk provides employee relations and payroll processing services for the Company. Services will be provided on a cost basis. Key Risk shall provide a detailed written statement within 30 days of the end of each calendar month. The Company shall pay the amount due within 30 days of receipt of the monthly statement.

Joint Services Agreement

Effective January 1, 2003, a joint services agreement between BRIC, Firemen's, Tri-State Insurance Company, Continental Western Insurance Company, Acadia Insurance Company, and various other affiliates within the BRIC group of companies was executed. The agreement was filed with the Delaware Department of Insurance on March 14, 2003. Appendix A of the agreement was amended to include the State of Ohio on March 1, 2005 and this amended appendix A was filed as part of the 2004 Annual Form B as Exhibit C. Under the terms of the joint services agreement, any company (appointing company) may appoint other parties to the agreement to act as managers (servicing company) for the purpose of producing, underwriting and servicing certain business sourced through said other party including the handling and servicing of all claims, losses and legal actions resulting or arising there-from. Amounts due from the servicing company to the appointing company or vice versa, in connection with this agreement are to be settled in cash on a daily basis. At the direction of the appointing company, the servicing company will be instructed to settle such amounts either directly with the

appointing company, or with BRIC as reinsurer of appointing company's business and consistent with applicable agreements between appointing company and BRIC. All such amounts paid to BRIC shall be considered full and final settlement with the appointing company. A statement of account for each quarter ending March 31, June 30, September 30 and December 31, shall be forwarded by the servicing company to the appointing company no later than 30 days after the end of each quarter. Accounts settled on a daily basis are to be balanced quarterly pursuant to the quarterly reporting mentioned above. Any overages or shortages are to be remitted by one party to the other as indicated by the reports within 30 days of receipt of said report. This agreement remains in effect until cancelled by either party upon ninety (90) days prior written notice.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. As of December 31, 2004, the Company is a wholly owned subsidiary of Berkley Regional Insurance Company, a Delaware company and the sole stockholder. The ultimate parent is W.R. Berkley Corporation (WRBC), an insurance holding company also domiciled in the State of Delaware.

WRBC is a United States Property and Casualty insurance and insurance services holding company with operations throughout the U.S., as well as London, Argentina, and Asia. WRBC is traded on the NYSE as "BER". As of December 31, 2004, WRBC reported assets of \$11.5 billion, and stockholders' equity of \$2.1 billion on a GAAP basis.

An organizational chart listing the Holding Company System of which the Company was a member as of December 31, 2004 is as follows:

Firemen's Insurance Company of Washington DC

Organizational Chart

Effective December 31, 2004

W. R. Berkley Corporation	
Berkley International, LLC	65%
Carolina Casualty Insurance Company	100%
Clermont Specialty Managers, Ltd	100%
Greenwich Knight Insurance Company, Ltd.	100%
J/I Holding Corporation	100%
Admiral Insurance Company	100%
Admiral Indemnity Company	100%
Berkley London Holdings, Inc.	100%
W.R. Berkley London Finance, Ltd	80%
W.R. Berkley London Holdings, Ltd	80%
W.R. Berkley Insurance (Europe), Ltd	100%
Berkley Risk Administrators Company, LLC	100%
Clermont Insurance Company	100%
Nautilus Insurance Company	100%
Great Divide Insurance Company	100%
Key Risk Management Services, Inc.	100%
Monitor Liability Managers, Inc.	100%
Monitor Surety Managers, Inc.	100%
Queen's Island Insurance Company, Ltd	100%
Signet Star Holdings, Inc.	100%
Facultative ReSources, Inc.	100%
Vela Insurance Services, Inc.	100%
Berkley Insurance Company	100%
Berkley Regional Insurance Company	100%
Acadia Insurance Company	100%
Chesapeake Bay Property and Casualty Insurance Company	100%
Berkley Insurance Company of the Carolinas	100%
Continental Western Insurance Company	100%
Firemen's Insurance Company of Washington, D.C.	100%
Great River Insurance Company	100%
Tri-State Insurance Company of Minnesota	100%
Union Insurance Company	100%
Union Standard Insurance Company	100%
Gemini Insurance Company	100%
Key Risk Insurance Company	100%
Midwest Employers Casualty Company	100%
Preferred Employers Insurance Company	100%
Riverport Insurance Company	100%
Signet Star Re, LLC	100%
StarNet Insurance Company	100%
Berkley Underwriting Partners, LLC	100%

TERRITORY AND PLAN OF OPERATION

The Company was licensed for all property and casualty lines of business in the states of Connecticut, Delaware, Indiana, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, South Dakota, Vermont, Virginia and the District of Columbia. In January 1999, the W. R. Berkley Corporation (WRBC) initiated a restructuring of all the Berkley Regional property casualty companies. This resulted in the creation of the Berkley Mid-Atlantic Group of Companies (BMAG), of which Firemen's is the lead company. As part of another regional restructuring by WRBC in 2000, it was determined that certain affiliated companies would no longer underwrite business and begin depopulating. The Company has acquired a significant portion of new business in 2002, 2003 and 2004 as part of that decision. More information regarding this contract may be found under section "Reinsurance." For additional information regarding the Company's new business refer to the section "Growth of the Company."

Firemen's uses the independent agency system to distribute its products. The Company appoints professional licensed agents who are recruited by means of past business relationships and through membership in trade associations.

Direct Business

The Company's paper is used to write a modest sized block of multi peril business. This is done as an accommodation to the underwriting manager who has access to other affiliates' paper as well. The business is reinsured on a surplus basis with each reinsurer participating on each other's business. The paper utilized is selected on the basis of each reinsurers filing. The Company's direct writings during the examination were:

<u>Year</u>	<u>Direct Written Premiums</u>
2003	202,599,260
2004	232,313,827

Effective April 1, 2001, Firemen's ceded 100% of its business to Berkley Regional Insurance Company (BRIC), its parent. For more information see REINSURANCE.

REINSURANCE

For 2004, the Company reported the following distribution of net premiums written:

Direct business	\$232,313,827
Reinsurance assumed (from affiliates)	0
Reinsurance assumed (from non-affiliates)	6,626,838
Total direct and assumed	238,940,665
Reinsurance ceded (to affiliates)	238,940,665
Reinsurance ceded to (non-affiliates)	0
Total ceded	238,940,665
Net premiums written	0

A general outline of the significant assumed reinsurance agreements in effect at December 31, 2004 follows:

Assumed Reinsurance Affiliates

The Company assumes no premiums or business from affiliates.

Assumed Reinsurance – Non Affiliates

The Company had one assumed reinsurance agreement in effect at December 31, 2004, with "NCCI National Pool" of Florida. The 2004 premium assumed from the above pool totaled \$6,626,838.

Ceded

Effective April 1, 2001, the Company entered into a 100% quota share agreement with its parent, Berkley Regional Insurance Company, whereby the Company cedes 100% of any and all policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date. The Company amended the agreement to allow for daily cash settlements beginning January 1, 2003. The premium ceded to BRIC for 2004 totaled \$238,940,665. At December 31, 2004 the Company had no reinsurance recoverable from the parent.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the two (2) years from its last examination 2002, through this examination, 2004.

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards To Policyholders</u>	<u>Gross Written Premiums</u>	<u>Net Income (Loss)</u>
2004	\$ 117,266,076	\$ 30,535,584	\$ 238,940,665	\$ 2,030,850
2003	84,289,886	25,403,736	207,715,339	2,089,115
2002	98,164,285	24,407,359	132,662,537	1,123,607

Overall, assets increased \$33 million or 39.1 % to \$117 million in 2004 from \$84 million in 2003. Policyholder surplus increased \$5 million or 20.2 % to \$30.5 million in 2004 from \$25.4 million in 2003. Net income (loss) results for the examination period ranged from a low of \$1.1 million net gain in 2002 to a net income high of \$2.1 million in 2003.

As noted in the Company's 2004 Management's Discussion and Analysis, the Company's agents' balances (agents' balances in course of collection and agents' balances deferred and not

yet due) increased \$39 million from 2003 to 2004. This accounts for the 39% increase in admitted assets in 2004. The 20% increase in surplus was primarily due to a \$4 million contribution from BRIC of additional paid in capital. The increasing trend for gross written premiums and admitted assets was due to regional restructuring by the Company's ultimate parent, W. R. Berkley Corporation, in 2002. It was determined that certain affiliates would no longer underwrite business and Firemen's acquired a significant amount of new business due to that decision.

ACCOUNTS AND RECORDS

The Company's accounting and financial reporting functions are performed out of its administrative offices, located at 4820 Lake Brook Drive, Suite 300, Glen Allen, Virginia, 23060. Investment functions as performed under the investment management agreement, are performed at the administrative home office of WRBC, located at 475 Steamboat Road, Greenwich, Connecticut, 06830.

Firemen's utilizes general ledger software which is common to all subsidiaries of WRBC. Each operating unit is authorized to record transactions for their operational unit only, however, pursuant to the joint services agreement as described previously in this report, they are authorized to read and report all transactions on a statutory basis for any legal entity assigned to them. Each operating unit is responsible for the accuracy and reconciliations of the general ledger values for their corporate profit center regardless of the legal entity utilized.

A high-level assessment of the internal control structure and process for the Company's accounting and computer systems was discussed with management and reviewed after completion of questionnaires developed by the NAIC and the Delaware Department of Insurance.

The discussions and review did not reveal any material deficiencies in the internal control structure of the Berkley Regional Insurance Group.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external accounting firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2004 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure. The Company does not maintain an internal audit department.

The closing balance sheet and other documents were reviewed for the purposes of this examination. A review of the adjusted trial balance as of December 31, 2004 indicated that the balances supported the financial data of the Company's 2004 Annual Statement.

Based on the examination review of Annual Statement classifications and subsequent discussions with management, the accounting system and procedures conformed to insurance accounting standard practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2004
Liabilities, Surplus and Other Funds December 31, 2004
Underwriting and Investment Exhibit - Statement of Income, 2004
Capital and Surplus Account for the one year period ending December 31, 2004

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. No exam changes were made to the financial statements of this report.

Analysis of Assets
December 31, 2004

	<u>Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$39,000,639		\$39,000,639	1
Preferred stock	1,027,500		1,027,500	
Cash and short-term investments	(2,584,187)		(2,584,187)	2
Investment income due and accrued	557,559		557,559	
Agents' balances or premiums in course of collection	20,574,267	3,905,828	16,668,439	
Premiums, agents' balances and installments booked but deferred and not yet due	59,977,563	0	59,977,563	
Net deferred tax asset	5,092,114	4,161,971	930,143	
Guaranty funds receivable	314,955		314,955	
EDP equipment	354,563	72,564	281,999	
Furniture and equipment	1,225,471	1,225,471	0	
Receivable from affiliates	33,766		33,766	
Other non-admitted assets	311,180	311,180	0	
Aggregate write-ins for other than invested assets	1,057,703		1,057,703	
Total Assets	<u>\$126,943,092</u>	<u>\$9,677,014</u>	<u>\$117,266,076</u>	

Liabilities, Surplus and Other Funds
December 31, 2004

		<u>Note</u>
Losses	\$ 0	3
Loss adjustment expenses	0	3
Commissions payable and contingent commissions	8,181,310	
Other expenses	2,397,918	
Taxes, licenses and fees	7,032,876	
Advance premiums	611,372	
Dividends to policyholders	819,424	
Ceded reinsurance premiums payable	67,066,992	
Amounts withheld or retained by company for account of others	60,378	
Payable to affiliates	560,223	
	<hr/>	
Total Liabilities	\$86,730,492	
	<hr/>	
Common capital stock	\$3,500,000	
Gross paid in and contributed surplus	19,717,835	
Unassigned funds (surplus)	7,317,749	
	<hr/>	
Surplus as Regards Policyholders	\$30,535,584	
Total surplus and liabilities	<u>\$117,266,076</u>	

Underwriting and Investment Exhibit - Statement of Income
Year Ended December 31, 2004

UNDERWRITING INCOME

Premiums earned	0
Losses incurred	0
Loss expense incurred	0
Other underwriting expenses	0
Total underwriting deductions	<u>0</u>
Net underwriting gain or (loss)	0

INVESTMENT INCOME

Net investment income earned	1,830,514
Net realized capital gains or (losses)	<u>200,337</u>
Total investment income	2,030,850

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	0
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	0
Net income before dividends to policyholders and federal income taxes	2,030,850
Federal and foreign income taxes incurred	<u>0</u>
Net income	<u>\$2,030,850</u>

Capital and Surplus Account
December 31, 2004

Surplus as regards policyholders, December 31, 2003	<u>\$25,403,735</u>
Net income	2,030,850
Change in net unrealized capital gains or (losses)	25,000
Change in net deferred income tax	619,781
Change in non-admitted assets	(1,543,783)
Surplus adjustments: Paid in	4,000,000
Change in surplus as regards policyholders for the year	<u>\$5,131,849</u>
Capital and surplus, December 31, 2004	<u>\$30,535,584</u>

NOTES TO FINANCIAL STATEMENTS

Note 1

Bonds

\$39,000,639

Procedures were performed to confirm the existence and ownership of the bond investments reported in Schedule D, part 1 of the 2004 Annual Statement. These procedures were performed without exception. The Company's bond portfolio comprised 33.26% of total admitted assets as of December 31, 2004. 100% of the Company's bonds were rated class 2 or better by the NAIC Securities Valuation Office.

Note 2

Cash and short-term investments

(\$2,584,187)

The Company has zero-balance cash accounts with various banks and utilizes the positive pay check clearing system. As a result, the Company reported a negative balance for this asset as of the date of this report.

Note 3 - Losses

Loss adjustment Expense Reserves

\$-0-

\$-0-

The Company cedes all of its direct and assumed business to its direct parent, Berkley Regional Insurance Company, under a 100% multiple-line quota share agreement.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company's compliance with prior examination recommendations was reviewed for each account in the current examination for which there was a prior exam recommendation. All prior examination recommendations were either directly or indirectly addressed subsequent to the previous examination.

RECOMMENDATIONS

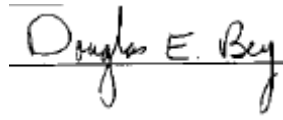
- 1) It is recommended that the Company amend its Certificate of Incorporation and/or By-laws to correct the inconsistencies noted regarding the required number of directors.
(page 6)
- 2) It is recommended that all active intercompany agreements be included in Item 5 of the Annual Form B Holding Company Registration Statement. (page 10)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between examination periods.

Description	12/31/04 Current Examination	12/31/02 Prior Examination	Changes Increase (Decrease)
Assets	<u>\$117,266,076</u>	<u>\$98,164,286</u>	<u>\$19,101,790</u>
Liabilities	\$86,730,492	\$73,756,927	\$12,973,565
Common capital stock	\$3,500,000	\$3,500,000	\$0
Gross paid in and contributed surplus	19,717,835	15,717,835	4,000,000
Unassigned funds (surplus)	<u>7,317,749</u>	<u>5,189,524</u>	<u>2,128,225</u>
Total capital and surplus	\$30,535,584	24,407,359	6,128,225
Totals	<u>\$117,266,076</u>	<u>\$98,164,286</u>	<u>\$19,101,790</u>

Respectfully submitted,

A handwritten signature in cursive script, reading "Douglas E. Bey", is written over a horizontal line.

Douglas E. Bey, CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC